

# THE HIDDEN COSTS OF A GST – AN INTERNATIONAL PERSPECTIVE

Chris Evans and Michael Walpole

*GST compliance costs are likely to fall especially heavily on small business*

**A**lthough the Goods and Services Tax ('GST') was not adopted as part of the Federal tax reform package introduced in Australia in 1985, the clamour for its introduction has not receded in the past eleven years. Indeed, there now appears to be a groundswell of business and other political support for the tax that suggests a degree of inevitability about its introduction. But squeaky wheels and vested interests do not necessarily make for good policy decisions.

The merits and disadvantages of a GST have already received prominent attention. But it is noticeable in the debate to date that very little attention has been paid to the issue of the compliance cost burden that would be associated with a GST. This is a surprising omission given the attention that has been paid to compliance costs in recent years. Concern about compliance costs is a key aspect of the Federal Coalition's policy on small business. The Small Business Deregulation Task Force report, presented to the Government in November 1996, noted that the '... small business community is frustrated and overwhelmed by the complexity, and cost of dealing with government regulation and paperwork ... Difficulties with the taxation system were the most important issues small businesses raised with the Task Force. The system is too complex in terms of the number of taxes, the uncertainty of the law, the frequency of changes, the difficulty of interpretation, the burden of record keeping and the costs of compliance ...' (Small Business Deregulation Task Force 1996a:1-2).

The Australian Taxation Office has also signalled the importance it attaches to issues related to compliance costs. In the 1994-1995 Annual Report of the Commissioner of Taxation it is noted that 'concerns about the costs of complying with the various laws we administer continued to gain a high public profile' (Australian Taxation Office 1995a: v). The issue of compliance costs also figures as one of the four main focus areas in its corporate plan in which it is noted that 'the costs to the community of complying with the laws we administer will be

reduced' (Australian Taxation Office 1995b). The ATO recently completed a major survey, involving 10,000 taxpayers, designed to enable it to advise the Government on the incremental costs of compliance of particular policy proposals.<sup>1</sup>

The purpose of this article is to contribute to the debate about the merits, or otherwise, of the introduction of a GST in Australia by focusing upon the compliance costs that would be likely to arise if such a tax were to be introduced. The introduction of a GST – were it to happen – would not lead to the removal of the income tax system; at best it might permit a reduction in the rate of income tax. It is therefore safe to conclude that introducing a GST will not have any major impact on pre-existing compliance costs of the direct tax system, which are largely a function of the presence of the tax, not the rate. For this reason the article does not dwell on comparisons between the costs of complying with a GST and those associated with income tax compliance. In passing, however, it might be noted that there is some evidence to suggest that the compliance costs of indirect taxes are lower than those encountered with direct, income based, taxes (see, for example, the recent background paper prepared for the Small Business Deregulation Task Force (1996b: 24)).

The analysis, for present purposes, starts with a brief discussion of what is meant by a GST and by compliance costs. It then looks at the experience of comparable tax regimes (particularly the UK, but also New Zealand, Canada and other countries) in order to provide insights into the compliance costs encountered overseas when indirect taxes such as the VAT (identical in all meaningful respects to a GST) have been introduced. Their experiences are likely to be useful in establishing potential benchmarks for compliance costs related to a GST in Australia. The opportunity is then taken to compare the

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<sup>1</sup> The survey was undertaken in the latter part of 1995 by the authors of this paper, together with Katherine Ritchie and Dr Binh Tran-Nam, also of ATAX. A final report has been presented to the ATO and is due to be published shortly.

likely Australian GST compliance costs with the compliance costs of the existing Australian indirect taxes (and in particular those associated with the Wholesale Sales Tax ("WST"). The article concludes with an evaluation of the likely impact on compliance costs in Australia of the introduction and operation of a GST.

### What is a GST?

A GST can take a number of forms and it is important to be clear on what we mean by it. As already indicated, the form of GST envisaged in this article is that which corresponds most closely with the broad based consumption tax, often referred to as a VAT, used in Europe and elsewhere, such as in New Zealand. It is assumed that the GST which would be introduced in Australia would be a tax on the value added by a business as a commodity passes through its hands. It would be collected by all registered businesses on all goods and services supplied (taxable supplies). It would be levied at a single rate for all such goods and services and also be paid by businesses on the goods and services supplied (inputs) to them. It would involve a reconciliation of tax paid on the inputs used, to the tax recovered on taxable supplies made to others, and so would result in detailed records being kept in order to enable a proper reconciliation to be done. It would also require completion of a periodic return in order to remit to the revenue authority any surplus of tax recovered from customers over tax paid on inputs, or to claim any surplus of tax paid on inputs over tax collected on the goods and services supplied.

No doubt the model eventually used in Australia will differ from this, at least slightly, because of administrative policy to exempt certain inputs and zero rate certain outputs. But it is unlikely to be materially different.

### What Are Tax Compliance Costs?

There are, in broad terms, three main types of costs associated with tax compliance. Firstly, the costs of running the Australian Taxation Office and other revenue authorities, termed administrative costs. Second, there are the costs of taxpayers in complying with tax rules, and third the wider economic costs associated with the ways taxes can distort business and consumer behaviour. This article will focus only on the first two of these, and primarily on the second.

In the context of a GST, tax compliance costs can be confined to those incurred by businesses, because although individual taxpayers, in their private capacity, will pay the GST, they will not participate in the system so as to collect tax on the supply of goods and services to others, nor will they be permitted to claim from the revenue for

the GST they have paid. A useful starting point is therefore the definition of tax compliance costs given by Sandford et al. (1989: 10)

... compliance costs are defined as those costs incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given tax structure... For a business, the compliance costs include the cost of collecting, remitting and accounting for tax on the products or profits of the business and on the wages and salaries of its employees together with the costs of acquiring the knowledge to enable this work to be done including knowledge of their legal obligations and penalties. These costs include associated overhead costs including the costs of storing records as required by the tax authorities.

The simplicity of Sandford's description conceals the complexity of the issue of what are to be regarded as tax compliance costs, as it will always be difficult to determine what is properly described as a tax compliance cost and what is an accounting cost. Where one draws the line between the two will depend on one's perceptions of the tax system. There are many accounting and bookkeeping actions which are undertaken by businesses simply as a consequence of being in business. Someone must do the banking, reconcile bank statements, pay the wages and so on. One would be hard pressed to argue that the costs of such activities are tax compliance costs. Coincident with such actions, however, there will be tax compliance activities, such as recording income for purposes of determining assessable income and attending to the requirements of the PAYE system. Because so many ordinary accounting functions have a tax parallel, or feed into a tax return, the perception will often be that the only reason that a business engages in such activities is in order to comply with the tax laws. In the experience of the authors, many businesses, especially small businesses, perceive the main use of annual financial statements as being for taxation, rather than for financial management.

This distinction between accounting costs and those that arise as a result of complying with tax regulations has recently been illustrated in a background paper prepared for the Small Business Deregulation Task Force (1996b). This paper suggests that small businesses (defined as those with up to 19 employees) spend an average of around 16 hours per week on financial accounts, invoices, tax and other compliance matters. About three quarters of this time (12 hours per week) is taken up in running the firm's accounts, bookkeeping, invoices, paying wages and so on, and under three hours per week is spent on tax. The

balance – just over one hour per week – was spent in complying with other (non-tax) regulations.

What extra tax compliance costs would a typical Australian business have under a GST? It is worthwhile listing but a few of these. No doubt the highest compliance costs will be suffered by those who previously did not participate in the sales tax system but who would be required to participate in the GST system because of its breadth. There will be an added compliance cost in the form of completion of a periodic return and either a payment to the revenue or a claim for a refund. If there is a refund it will have to be checked and banked. At the point of recovery of GST on supplies made by the business there will be an extra invoicing function to reflect the GST, if Australia adopts an 'add on' rather than an 'add in' system. There would be an extra initial cost of ensuring the business's stationery complies with requirements such as showing a registration number and proper current

business's finances. As one international expert (Williams 1996: 142) has put it:

There is a symmetry [in VAT] that lends itself to effective audits ... That works to dampen evasion. ... [This] has additional if incidental effects: it causes businesses to keep records that are useful to them as well as to the revenue authority. My little experience in that field tells me that a major problem with many small businesses is that they do not monitor their cash flows. VAT forces them to do that.

It must be accepted that the 'audit trail' which GST record keeping will leave will equip businesses to pay more attention to their financial well-being, but whether small businesses will monitor cash flows better, simply because they have the means to do so, is less certain. In the authors' experience small businesses are often either too

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NO DOUBT THE HIGHEST COMPLIANCE COSTS WILL BE SUFFERED BY THOSE WHO PREVIOUSLY DID NOT PARTICIPATE IN THE SALES TAX SYSTEM BUT WHO WOULD BE REQUIRED TO PARTICIPATE IN THE GST SYSTEM BECAUSE OF ITS BREADTH.

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address. There would, naturally, be an initial compliance cost in registering the business in the first place. At the point of acquisition of supplies by the business, on which it wishes to claim a credit for the GST paid, there will be an extra function of recording the GST that has been paid so that it can be offset against GST recovered by the business. Many of these activities would be coincident with accounting functions but they would be extra to those functions. The compliance costs would increase where the nature of the business involved some refinement or other (depending on the model adopted) to the standard GST template, such as imputing a deemed GST on the cost of acquisition of second hand goods as trading stock by second hand dealers, accounting for GST incurred as an agent for another business, dealings within group companies and so on. All these refinements would involve small but repetitive extra compliance activities, not necessarily encompassed by existing accounting methods.

In the face of anticipated extra compliance costs, proponents of a GST for Australia rely heavily on arguments that there are benefits to business in the form of better record keeping and better knowledge of the

busy or disinclined to monitor their financial situation as closely as they should. The benefit of better record keeping will not be recognised by many and will, in those cases, be regarded as a compliance burden. The ability to audit more accurately will be a benefit to the revenue authority, but the better records involved will only benefit business if advantage is taken of them. In many small businesses that is unlikely, and their inclination will be to focus only on the compliance cost of such improved record keeping, just as in a bygone era children must have associated the daily dose of cod liver oil with its unpleasant taste rather than its dietary benefits. Nonetheless, as is shown below, research into the compliance costs associated with a GST has attempted, however roughly, to identify and measure the benefits to business which flow as a result of improved management information.

The perception of greater GST compliance costs may also have another effect. It may fuel the psychic costs of taxation. The increased record keeping requirements of a GST, coupled with knowledge of their intended use as an audit tool, may cause anxiety and distrust. Although it is probably impossible to quantify such psychic costs, they will be visible in such behaviour, not necessarily rational,

as businesses 'opting out' of the formal tax system and operating in the black economy where tax compliance is not an issue. This may have serious implications for the tax base, and is particularly likely to occur in businesses starting from a low base with poor record keeping systems at the inception of a GST. Even if some businesses do not enter the black economy, it is likely that GST compliance will be required only of businesses of a certain scale and therefore be subject to a turnover threshold. It may be that some small businesses turn work down, or deliberately minimise their opportunities, so as to remain outside the GST system. The latter will adversely affect national production and the community generally.

So far in this article, the compliance costs discussed have been those borne by taxpayers themselves. As indicated earlier, there is another category of compliance costs – the costs borne by the administration in recovering tax and ensuring proper compliance with the law. Although of less direct concern to the taxpayer, such costs are nevertheless important. There is little to be gained,

Australian Taxation Office than are presently required to administer the WST. It would seem likely that these resources could not be provided simply by redeployment of the existing establishment and that there would be an increase in the net administration costs of the Australian tax system.

### Overseas Experience

There has been research in a number of countries in recent years into the compliance costs associated with a VAT/GST. This research may be a useful indicator of the likely impact of compliance costs on the taxpayer community should a similar tax be introduced in Australia. Naturally, any evaluation of overseas experience must be tempered with a degree of caution, as differences in taxation cultures, systems and processes inevitably distort straight comparisons. Moreover, each of the studies mentioned below has been carried out on different bases, which make comparison even more difficult. Nevertheless, overseas experiences might be helpful in providing some indication

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overall, from a tax with low compliance costs for taxpayers if it involves high administration costs. A GST would not be without such costs. Although a GST would operate on a self-assessment basis, there would be frequent contact with taxpayers rendering periodic returns. No doubt the frequency of these returns will depend on the type of taxpayer involved and their level of turnover, but many will probably be monthly and even the least frequent type of return, one would imagine, would be at least twice as frequent as an ordinary income tax return. In addition, these returns would be submitted by every registered business, dramatically increasing the number of 'clients' dealt with by the Australian Taxation Office. The receipt of GST returns would require processing of payments and refunds, and the returns would have to be checked. As one of the main arguments in favour of a GST is the ease with which audits may be conducted, there will be a commitment of substantial resources to audit functions, particularly given the high number of businesses likely to be involved in the GST system. Thus, it should be remembered, for all its ease of administration, a GST would definitely require an investment of more resources by the

of the possible range and level of compliance costs involved.

VAT was introduced in the UK in 1973 and is administered by the Department of Customs and Excise. The VAT is collected on behalf of that department by 1.619 million registered traders, of whom about 1.4 million have a turnover of less than £500,000. The most recent research suggests that UK businesses incurred compliance costs of £1,600 million in complying with VAT regulations in 1992-1993, partially offset by cash flow benefits of £600 million (because traders hold VAT for between one and four months before paying it over to the Department of Customs and Excise) and indirect management benefits of roughly £150 million (because the requirements to produce regular and reliable VAT returns encourages traders to maintain better accounts and records) (National Audit Office 1994: 15-20). The net compliance costs to business are therefore in the order of £850 million. This compares with a revenue yield from the VAT in 1992-1993 of £63,000 million with repayments of £26,000 million – net £37,000 million (National Audit Office 1994: 5). The figures therefore suggest that the total compliance costs were 2.3 per cent of the

VAT net revenue. The cost to the Department of administering the VAT regulations was another £399 million. The report notes that the compliance cost 'figures represent very broad estimates ...' (National Audit Office 1994: 3).

The research conducted in the UK by the National Audit Office for its 1994 report built upon studies led by Professor Cedric Sandford into compliance costs of VAT in 1977-1978 (Sandford et al. 1981) and 1986-1987 (Sandford et al. 1989). The 1981 and 1989 studies used extensive mail surveys, although the latter was less detailed and comprehensive than the former. Sandford assisted the National Audit Office with its update published in 1994. The various studies (1981, 1989 and 1994) suggest the following:

- gross compliance costs are regressive. 'They fall with disproportionate severity on the smaller firms' (Sandford et al. 1989: 135). For example, the 1994 report shows that gross compliance costs for traders whose turnover was in the range £0 – £19,000 constituted 1.5 per cent of taxable turnover; for those whose turnover was over £500,000, gross compliance costs were less than 0.3 per cent (National Audit Office 1994: 21);
- when the value of the cash flow and managerial benefits are taken into account, compliance costs are even more regressive (National Audit Office 1994: 21). In other words, the benefits identified by the studies are unevenly distributed;
- the overall burden of compliance costs diminished in real terms between 1977-1978 and 1986-1987, in response to specific changes to the VAT regime and as a result of increased trader familiarity with the operation of the VAT system. The 1989 study suggests that they may have been rising again in the period after 1986-1987 (Sandford et al. 1989: 135), and the National Audit Office Report figures appear to confirm this. The Report notes that in nominal terms the overall (gross) compliance costs approximately doubled from £791 million to £1,600 million in the six year period from 1986-1987 to 1992-1993. During this period the Retail Price Index increased by only 42 per cent. There is no evidence as yet to suggest that the overall burden of compliance costs related to the UK's VAT is diminishing over time.

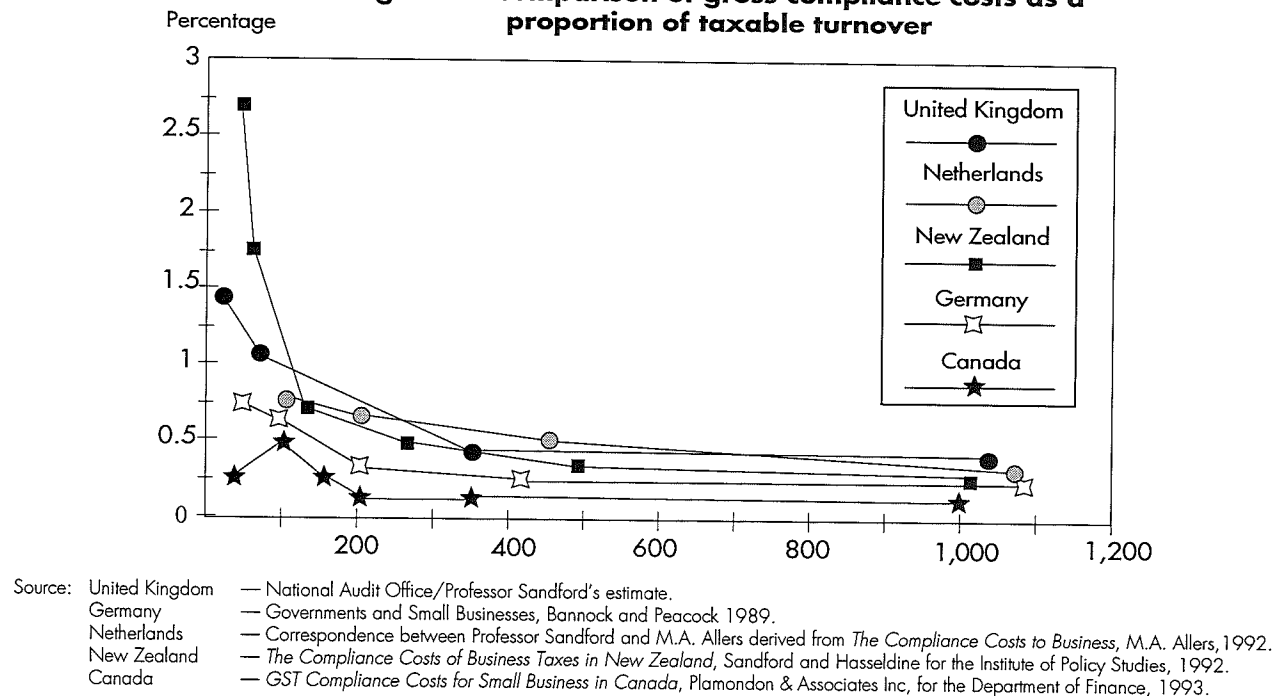
The compliance costs and benefits of the New Zealand GST have been subjected to scrutiny as part of a large scale mail survey conducted into business taxes in 1990-1991 (Sandford and Hasseldine 1992). The study estimated that the total compliance costs of GST were

NZ\$453 million, or 7.3 per cent of GST net revenue, a figure nearly three times higher than that for the UK (Hasseldine 1995). At the time of the survey the New Zealand Inland Revenue Department did not publish administrative costs for particular taxes, but Sandford and Hasseldine note that 'if administrative costs are allowed for, there must be a high probability that the combined administrative and compliance costs exceed revenue' so far as businesses from the smallest size turnover category (less than NZ\$30,000) are concerned (1992: 120). The study also notes that some of the businesses in the largest two size turnover categories (NZ\$10-50 million and over NZ\$50 million) experienced negative net compliance costs, indicating that the compliance costs are very regressive, falling with particular severity on smaller businesses (Hasseldine 1995: 134).

A study into the compliance costs of the Canadian GST was conducted by Plamondon and Associates and released in 1993 (Plamondon 1993). It differed significantly from the UK and New Zealand research in two important respects. Firstly, the methodology that was employed involved interviews with 200 businesses conducted by selected and briefed accountants (as opposed to mail survey techniques). And secondly, the study sought to identify and isolate the incremental compliance costs related to the introduction of the federal GST in January 1991 (as opposed to being concerned with total compliance costs of an already established tax). Nonetheless its major conclusions confirm many of the outcomes already identified in other countries. '... [C]ompliance costs, as a percentage of business turnover and taxes remitted, decrease with the size of business, i.e. the smaller the business, the greater the relative cost' (Wurts 1995: 309).

Interestingly, however, the level of GST compliance costs in Canada, particularly at the lower levels of turnover, appears to be significantly lower than either the UK or the New Zealand experiences. Wurts notes that 'compared with Canada, compliance estimates are significantly higher in New Zealand for all registrants where turnovers are less than C\$1 million' (1995: 310). He attributes this difference to such factors as the more detailed and costly method of gathering data used in the Plamondon study (leading to more reliable outcomes in Canada), together with the focus on incremental rather than total compliance costs, the familiarity of Canadian traders with other sales taxes as a result of provincial taxation practices, and a greater degree of computerisation in Canadian businesses. The Canadian research also produced lower cost estimates than the UK figures. For example, 'for the £50,000-£100,000 turnover band (the only one directly comparable), gross compliance costs were estimated to be

**Figure 1: Comparison of gross compliance costs as a proportion of taxable turnover**



Note: The purpose of this graph is to illustrate the similarity of the compliance cost: turnover curve. Comparisons between individual countries' figures are not valid because the tax regimes are different and the research has been carried out on different bases.

The incidence of compliance costs in relation to trader turnover is broadly consistent between the United Kingdom, Germany, the Netherlands, Canada and New Zealand.

0.44 per cent of turnover in Canada compared to 0.71 per cent in the UK' (National Audit Office 1994: 22). Whilst it is recognised that the Canadian research may have been more detailed and more precise in certain respects, there is some question as to whether a sample size of only 200 can produce results which are statistically significant. Moreover, the data was not representative of different economic sectors and geographical regions, and may also have been unrepresentative in that businesses which did not use accountants were not involved. But it must be noted that flaws have also been identified in many of the other surveys, and so the Canadian experience still provides useful insights.

Studies in other countries confirm much of the pattern that has already been identified in the UK, New Zealand and Canada. Research carried out into Germany's VAT (Bannock and Albach 1987) confirmed the regressive nature of the compliance costs associated with the tax, although once again the UK's costs were higher at all levels of turnover except for the smallest (Sandford 1989: 134). Dutch experience with the VAT appears to reveal similar characteristics (Allers 1995).

Figure 1, taken from the 1994 National Audit Office Report (p.23) summarises the position as far as the five

countries mentioned above are concerned. There is a pattern across all five countries when compliance costs of the VAT/GST are related to the taxable turnover of the business, with the smaller traders incurring proportionately the greater costs. Figure 1 confirms the observation made by Bannock that 'for very small firms ... VAT can be a chronic burden. For small to medium and medium size firms, VAT varies from being a major nuisance to being hardly noticed. For large firms, VAT can be a positive benefit given the economies of scale in VAT compliance and the cash flow which VAT generates' (Bannock 1990: 77). This is inherently logical. The nature of the tax is such that it carries a high element of fixed costs which will be there regardless of the size of the business.

#### GST versus WST

Whilst international comparisons may be useful to give an indication of the level and the incidence of compliance costs, it is also important to consider how compliance costs of the existing WST compare to those that might occur under a GST. The major published research into the compliance costs of the WST that has been carried out in Australia was undertaken by Pope, Fayle and Chen in respect of the 1990-1991 tax year, and consisted of a mail

survey sent to 3,034 businesses selected at random from the Yellow Pages (Pope et al. 1993). It obtained a response rate of 24 per cent. Its major findings were that the estimated total compliance costs of WST were \$179 million, or 1.9 per cent of WST revenue of \$9,365 million. In addition, there was a negative cash flow cost (because, on average, taxes are remitted to the ATO before they are collected from credit customers) which was estimated to be in the order of \$22 million, or 0.2 per cent of WST revenue. In total, therefore, net compliance costs were estimated to be about 2.1 per cent of WST revenue. The WST research was undertaken before the major reforms to the system (the streamlining of sales tax) in 1992. The reforms may well have reduced the overall level of compliance costs, although no specific research has yet been published on this point.

The WST research conducted by Pope et al. was part of a larger series of studies into Australian compliance costs. These studies have been subjected to some criticism from a variety of sources, including, most recently, the Office of Regulation Review (Rimmer and Wilson 1996). Concerns have been expressed about the methodologies employed and the accuracy of the survey outcomes. In the

And, importantly, the risk also exists that the compliance costs of a GST will prove to be just as regressive, if not more regressive, than the WST compliance costs, with the result that the burden will continue to fall inordinately on the smaller business sector.

In passing, it might also be noted that the administration costs associated with the GST and the WST appear to work in favour of the WST. In Australia in 1995-1996 the net cost of collections of WST as a percentage of WST revenue was 0.45 per cent (Australian Taxation Office 1996); in the UK the comparable figure for VAT 1992-1993 was apparently 1.08 per cent (based on the National Audit Office report figures quoted earlier in this article). Admittedly the years differ, but the figures suggest that a recently made assertion that the replacement of the WST with a GST in Australia 'must carry with it advantages of lower compliance costs ... and lower administrative costs' (Williams 1996: 142) may be misleading and is open to challenge.

### Conclusions – Lessons for Australia

Taxation compliance costs (and indeed compliance costs arising from a host of other areas impacted by regulation)

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THE RESEARCH SHOWS THAT THE COMPLIANCE COSTS OF THE VAT/GST ARE  
SEVERELY REGRESSIVE, AND THEY MAY BE MORE SO THAN OTHER BUSINESS TAXES.

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Office of Regulation Review study it is noted that '... we have reservations whether the surveys give the right order of magnitude' (Rimmer and Wilson 1996: 17). Later the same report, in reference to the Pope et al. studies, states: 'However, because of the methodological and conceptual complexity of measuring such costs, the low response rates and possible sampling errors, it is not possible to be confident about these results' (Rimmer and Wilson 1996: 25). There is therefore some concern that the figure of 2.1 per cent may be at the high end of the range of possible compliance costs.

It is extremely difficult to compare, with precision, the compliance costs of the WST with those of a possible GST. The data is not sufficiently robust, and simplistic comparisons of Pope's WST net compliance cost of 2.1 per cent of revenue collected with the UK's figure of 2.3 per cent for VAT and New Zealand's 7.3 per cent for GST are dangerous. But it must be noted that there is a real risk that the compliance costs of a GST could be higher – and significantly higher – than those related to the WST.

are a fact of business life. But business needs to be able to operate on the basis that the burden of such costs is kept to a minimum. The level of compliance costs associated with the introduction and operation of a GST in Australia must be carefully considered before any decision is made to impose such a tax. International research – and particularly the experiences of the UK and New Zealand – suggests that high levels of compliance costs arise as a result of their systems of VAT. The overall burden is considerable, and the signs are that it does not settle down over time. The Canadian experience suggests a lower overall level, but it may well be that identifiable local factors have played a part in that outcome. The Plamondon research points to aspects of the fiscal culture – and in particular the Canadian familiarity with sales taxes at the provincial level – to help explain compliance costs which are noticeably lower than elsewhere. Would this be the case in Australia? The Canadian researchers also note the heavy use of computers by businesses, a factor taken up in the German study, and cite this as a potential reason for lower compliance costs. It

remains to be seen whether the level of computer use in Australia is high enough to produce similar results.

There are indications that the compliance costs of the current system of WST are lower than those likely to be encountered with the introduction of a GST. Introducing a GST might be deemed acceptable – from the compliance cost perspective – if its introduction caused a decrease in the administrative costs of the system. Again the international research suggests this would not be the case; the costs of administering a GST system are likely to be greater than those for the current WST.

But it is not just the level of compliance costs, or of administrative costs, that matters. More importantly, the incidence of those compliance costs must be taken into account. The research shows that the compliance costs of the VAT/GST are severely regressive, and they may be more so than other business taxes. The costs and benefits from complying with a GST will not be evenly spread if such a tax were introduced in Australia. The international experience unequivocally points to the fact that the benefits (of cash flows and improved management systems) will accrue to the largest firms, whilst those at the other end of the scale will endure disproportionately high compliance costs and few of the benefits. Psychic costs – not included in any measurement or evaluation of compliance costs – will mirror this pattern. It would ill behove a government, elected on a platform that pays homage to the role of the small business sector in driving growth and employment opportunities for the future of Australia, to contemplate the introduction of a GST (whether in this term or the next) without very carefully considering the compliance cost impacts on one of its most important constituencies.

*Policy*

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